

December 2001

FINANCIAL AUDIT GUIDE

Auditing the Statement of Budgetary Resources



Report Documentation Page		
Report Date 00DEC2001	Report Type N/A	Dates Covered (from... to) -
Title and Subtitle FINANCIAL AUDIT GUIDE Auditing the Statement of Budgetary Resources	Contract Number	
	Grant Number	
	Program Element Number	
Author(s)	Project Number	
	Task Number	
	Work Unit Number	
Performing Organization Name(s) and Address(es) U.S. General Accounting Office P.O. Box 37050 Washington, D.C. 20013	Performing Organization Report Number GAO-02-126g	
Sponsoring/Monitoring Agency Name(s) and Address(es)	Sponsor/Monitor's Acronym(s)	
	Sponsor/Monitor's Report Number(s)	
Distribution/Availability Statement Approved for public release, distribution unlimited		
Supplementary Notes		
Abstract Federal financial reporting should assist in fulfilling the governments duty to be publicly accountable for moneys raised from the public and for their expenditure in accordance with applicable laws that establish the budget and other related laws and regulations. As a means to help achieve this objective, beginning with fiscal year 1998, executive agencies subject to the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act of 1994, were each required to prepare and submit for audit a Statement of Budgetary Resources (SBR) in addition to the other required financial statements.		
Subject Terms		
Report Classification unclassified	Classification of this page unclassified	
Classification of Abstract unclassified	Limitation of Abstract SAR	
Number of Pages 47		

Contents

Preface		1
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Introduction		3
	Using This Guide	3
	Other Matters Related to This Guide	4

Appendix I	SBR Preparation and Linkage to the President’s Budget	5
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Appendix II	Linkage Between SBR and the President’s Budget	8
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Appendix III	Issues Related to the Preparation and Audit of the SBR	11
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Appendix IV	Audit Guidance	13
	I. Planning Phase	14
	II. Internal Control Phase	18
	III. Testing Phase	22
	IV. Integration of Budgetary and Proprietary Accounting Testing	38
	V. Presentation and Disclosure	39
	VI. Overall Analytical Procedures	42
	VII. Required Supplementary Information	42

Figures		
	Figure 1: Example of Combining SBR Supplementary Information	8
	Figure 2: Example of a President’s Budget P&F Schedule	9
	Figure 3: Budgetary Resources Section of the SBR (Effective for Fiscal Year 2001)	24
	Figure 4: Budgetary Resources Section of the SBR (Effective for Fiscal Year 2002)	25
	Figure 5: Status of Budgetary Resources Section of the SBR (Effective for Fiscal Year 2001)	30

Figure 6: Status of Budgetary Resources Section of the SBR (Effective for Fiscal Year 2002)	30
Figure 7: Outlays Section of the SBR (Effective for Fiscal Year 2001)	33
Figure 8: Revised Outlays Section of the SBR (Effective for Fiscal Year 2002)	33

Abbreviations

FACTS II	Federal Agencies' Centralized Trial Balance System II
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act
GAAP	Generally Accepted Accounting Principles
OIG	Office of Inspector General
OMB	Office of Management and Budget
P&F	Program and Financing Schedule of the President's Budget
PCIE	President's Council on Integrity and Efficiency
SFFAS	Statement of Federal Financial Accounting Standards
SBR	Statement of Budgetary Resources
USSGL	<i>United States Standard General Ledger</i>

Preface

Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for moneys raised from the public and for their expenditure in accordance with applicable laws that establish the budget and other related laws and regulations. As a means to help achieve this objective, beginning with fiscal year 1998, executive agencies subject to the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act of 1994, were each required to prepare and submit for audit a Statement of Budgetary Resources (SBR) in addition to the other required financial statements.

The SBR and related disclosures provide information about budgetary resources made available to an agency as well as the status of those resources at the end of the fiscal year. The SBR and related note disclosures serve as a tool to link budget execution data in an agency's financial statements to information reported in the "actual" column of the Program and Financing (P&F) Schedules in the Appendix of the Budget of the United States Government (hereafter referred to as the "President's Budget"). Coupled with the analysis of other budgetary data, the SBR's linkage to the President's Budget provides a means to help assess the reliability of budgetary data reported in the President's Budget. The proper preparation and audit of the SBR is key to this assessment.

Audit guidance in this document is intended to help auditors comply with Generally Accepted Government Auditing Standards (GAGAS) as well as implement the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, and the GAO and the President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual*.

To facilitate its use, this guide is located on the Internet on GAO's home page (www.gao.gov) under the heading "Other Publications" and the subheading "Accounting and Financial Management." Additional copies of this guide can be obtained from the U.S. General Accounting Office,

Room 1100, 700 4th St. NW, Washington, D.C. 20548, or by calling (202) 512-6000, or TDD (202) 512-2537.

A handwritten signature in black ink, reading "Linda Calbom". The signature is written in a cursive, flowing style.

Linda M. Calbom
Director, Financial Management and Assurance

Introduction

The audit of the SBR and related disclosures provides the means to assess the reliability of reported budget execution data and a tool to help assess the reliability of the amounts reported as “actual” in the President’s Budget. The audit also includes the testing of significant provisions of relevant laws and regulations that have a direct and material effect on the financial statements, including budget restrictions.

Our previous review of the documentation related to the preparation and audit of the SBR showed that the SBR was not always properly audited and that explanations of material differences between the SBR and the President’s Budget were not always disclosed as required. The inability to properly audit the SBR and the lack of explanations for differences between amounts in the SBR and comparable amounts in the President’s Budget, breaks the linkage between these documents and limits the ability to assess the reliability of budget execution data.

Using This Guide

This guide provides the auditor with a tool for designing audit procedures for budgetary accounts. It should be understood that this guide is not an authoritative part of auditing standards and is solely intended as a supplemental guide to help auditors comply with GAGAS and OMB audit guidance. It focuses on matters that the auditor should consider during the SBR audit and should be used in conjunction with the OMB Bulletin No. 01-02 and the GAO/PCIE *Financial Audit Manual*. In addition, due to differences in agency budgets as well as in their systems, procedures, and controls, the auditor should use professional judgment interpreting this guidance and in designing and executing the appropriate audit steps to achieve the SBR audit objectives.

This guide includes four appendixes which provide (1) general information on the preparation of the SBR and its linkage to the President’s Budget, (2) an example of how SBR information presented in supplementary schedules can be linked to information in the President’s Budget, (3) information about certain issues related to the preparation and audit of the SBR, and (4) guidance to assist auditors in developing audit plans and programs for their audits of the SBRs.

Audit guidance in appendix IV of this guide includes information and suggested procedures for the SBR that auditors should perform during the planning, internal control, and testing phases of the audit. The testing section is focused on the SBR format used in OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*. It includes a general

description of the line items, risks, and audit objectives and guidance related to the existence and completeness financial statement assertions.

For fiscal years beginning after September 30, 2001, OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, revised the form and content of the SBR. Information related to these form and content changes is included in appendix I of this guide.

Other Matters Related to This Guide

A previous draft of this guide was provided to officials from OMB and the 24 CFO agencies' offices of inspectors general (OIG) for their review and comment. Officials from OMB and the OIGs generally agreed with the guide and provided comments, which were incorporated in this guide as appropriate. In addition, OMB officials reviewed changes made to this guide resulting from the OMB Bulletin No. 01-09, and their comments were incorporated as applicable.

Appendix I: SBR Preparation and Linkage to the President's Budget

The SBR and its linkage to the President's Budget are key components of the federal financial accounting and reporting framework designed to achieve "budgetary integrity." Budgetary integrity, as defined by the Federal Accounting Standards Advisory Board's (FASAB)¹ accounting concepts, means that federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for moneys raised through taxes and other means and for their expenditure in accordance with related laws and regulations. In particular, FASAB's Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting*, states that federal financial reporting should provide information that helps users determine

- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with legal authorization and
- the status of budgetary resources.

An additional aspect of the budgetary integrity objective, which is not the focus of this guide, is to help users determine how information on the use of budgetary resources relates to information on the cost of program operations, and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities. This objective can be best achieved through the preparation of the Statement of Financing.

OMB issues guidance on the form and content of federal agencies' financial statements, including the SBR. As mentioned before, OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended was superseded by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, which contains changes that affect the SBR's form and content, effective for fiscal years beginning after September 30, 2001. Major revisions to the SBR form and content include the addition of

- a separate column for Non-Budgetary Credit Program Financing Accounts and
- a new Offsetting Receipts line item to arrive at agencywide net outlays.

¹FASAB promulgates generally accepted accounting principles for federal government financial statement reporting to address the financial information needs of the Congress, executive agencies, and other users of federal financial information. Budgetary integrity is the first reporting objective of FASAB's framework.

In addition, to help ensure consistency between amounts in the SBR and budget execution reports, OMB added more detailed SBR line item components to assist agencies in identifying the proper placement of information on the statements. OMB guidance states that lines may be combined, using discretion, where balances are related in nature; however, material components should continue to be displayed separately on the face of the statement or in a note disclosure.

According to OMB guidance, agencies are to report budgetary information in the SBR based on budget terminology, definitions, and guidance issued in OMB Circular No. A-34, *Instructions on Budget Execution*. OMB guidance also states that information on the SBR should be consistent with budget execution information reported in the President's Budget and the SF 133, *Report on Budget Execution and Budgetary Resources*. The SF 133 reports are submitted to OMB by agencies so that OMB can monitor compliance with the appropriation and apportionment requirements to ensure adequate funds control.

The *U.S. Standard General Ledger* (USSGL) accounts and instructions to prepare the SBR and the SF 133 are generally the same and should result in minimal or no differences in the information reported in the two documents. The SBR is prepared using general ledger account balances, and the SF 133s and most of the President's Budget "actuals" are prepared using general ledger amounts submitted to OMB through the Federal Agencies' Centralized Trial Balance System (FACTS) II.²

Since the underlying information for these documents is similar, amounts in the SBR should be able to be linked to amounts in the "actual" column of the P&F Schedule.³ (See appendix II for an illustration of the linkage between the SBR and the President's Budget.) However, differences in amounts may exist between the SBR and the President's Budget because

²FACTS II is a Treasury-run system that agencies use to submit one set of financial data (mostly budgetary and some proprietary using USSGL account structure) that fulfills the needs of the SF 133, FMS 2108 *Year-End Closing Statement*, and much of the information included in the prior year column (actuals) of the P&F Schedules.

³The linkage between the SBR and the President's Budget P&F Schedule is evident when SBR information is organized by budgetary account, as in the supplementary information section of the financial statements, provided that accounts are aligned with the budget accounts as they appear in the President's Budget. OMB Circular No. A-34 provides a crosswalk from the SF 133 to the P&F Schedule actuals, which is helpful when reconciling amounts reported. The Treasury Financial Manual USSGL supplement contains crosswalks from the USSGL to the SF 133, P&F Schedules, and FMS 2108.

of (1) reporting requirement differences between the guidance used to prepare the SBR and the guidance used for recording the actuals in the President's Budget,⁴ (2) the fact that budgetary information is submitted for the President's Budget prior to the completion of most agency audits (timing differences) causing audit adjustments not to be reflected in the President's Budget balances, and (3) there may be errors in either the SBR or the President's Budget.

Recognizing that there may be differences between the amounts presented in the SBR and in the President's Budget, generally accepted accounting principles (GAAP), specifically Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires agencies to provide financial statement note explanations of material differences between amounts presented in the SBR and amounts described as "actual" in the President's Budget. (See section V of appendix IV for information on this and other required disclosures related to the SBR and refer to SFFAS No. 7 and OMB's form and content guidance for additional required disclosures.)

In addition, OMB Bulletin No. 01-09, will require agencies, beginning with fiscal year 2002, to disclose material differences between comparable amounts in the SBR, SF 133s and the "actuals" in the President's Budget. Because of this, the auditor should understand the agencies' process for verifying the accuracy of USSGL data entered into the FACTS II system. The auditor also needs to determine whether controls exist to ensure that amounts in the USSGL and amounts submitted (including subsequent adjustments) via FACTS II agree, and test controls where necessary.

⁴OMB Circular No. A-34 is the guidance used to prepare the SF 133s and the SBR, and OMB Circular No. A-11, *Preparation and Submission of Budget Estimates*, is the guidance used to report the "actuals" in the President's Budget.

Appendix II: Linkage Between SBR and the President's Budget

The following example shows how SBR information by major budget accounts included in the supplementary section of the financial statements can be linked to related information reported in the President's Budget. This example was also incorporated in a prior GAO report entitled *Federal Accounting and Reporting: Framework for Assessing the Reliability of Budget Execution Data Is Not Yet Fully Implemented*.¹ As previously discussed, OMB guidance for preparing agencies' financial statements was changed and the new guidance changes the SBR format effective in fiscal year 2002. Even though the SBR will change, the substance of the information is the same, and figures 1 and 2 demonstrate how amounts can be linked. An explanation of the linkage follows figure 2.

Figure 1: Example of Combining SBR Supplementary Information

1999 HCFA Financial Report					Supplementary Section 1999				
COMBINING STATEMENT OF BUDGETARY RESOURCES									
Year Ended September 30, 1999									
(in millions)	HI	SMI	HCFA	Payments to Trust Funds	Program Mgt.	Medicaid	SCHIP	HMO Loan	Combined Totals
Budgetary Resources:									
Budget authority	\$152,333	\$85,278	\$764	\$69,571		\$102,394	\$4,247		\$414,587
Unobligated balances - beginning of period	116,762	40,875	30	849	\$192	6,012	485	\$11	165,216
Net Transfers prior year balance, actual								(2)	(2)
Spending authority from offsetting collections			3		2,038	60		2	2,103
Adjustments	(138,222)	(45,615)		(835)	132	3,792			(180,748)
Total Budgetary Resources	130,873	80,538	797	69,585	2,362	112,258	4,732	11	401,156
Status of Budgetary Resources:									
Obligations incurred	130,873	80,538	771	69,551	2,128	111,141	4,732		399,734
Unobligated balances - available			26	34	98	1,117			1,275
Unobligated balances - not available					136			11	147
Total Status of Budgetary Resources	130,873	80,538	797	69,585	2,362	112,258	4,732	11	401,156
Outlays:									
Obligations incurred	130,873	80,538	771	69,551	2,128	111,141	4,732		399,734
Less: spending authority from offsetting collections and adjustments			(3)		(2,216)	(3,852)		(2)	(6,073)
Obligated balance, net - beginning of period	352	14	122		240	5,504	3,745		9,977
Obligated balance transferred, net					(110)				(110)
Less: obligated balance, net - end of period	(465)	(34)	(149)		(74)	(4,751)	(7,912)		(13,385)
Total Outlays	\$130,760	\$80,518	\$741	\$69,551	\$(32)	\$108,042	\$565	\$(2)	\$390,143

Source: Fiscal Year 1999 Health Care Financing Administration Financial Report, Combining Statement of Budgetary Resources (Supplementary Information Section).

¹GAO-01-43, October 6, 2000.

Figure 2: Example of a President's Budget P&F Schedule

HEALTH CARE FINANCING ADMINISTRATION <i>Federal Funds</i> General and Special Funds: GRANTS TO STATES FOR MEDICAID			
Program and Financing (in millions of dollars)			
Identification code 75-0512-0-1-551	1999 actual	2000 est.	2001 est.
Obligations by program activity:			
00.01 Medicaid vendor payments	104,775	109,272	116,448
00.02 State and local administration	5,836	6,380	7,258
00.03 Vaccine purchases	531	465	469
09.00 Medicare Part B premium transfer		50	60
10.00 Total new obligations	111,142	116,167	124,235
Budgetary resources available for obligation:			
21.40 Unobligated balance available, start of year	6,012	1,117	
22.00 New budget authority (gross)	102,394	115,050	124,235
22.10 Resources available from recoveries of prior year obligations	3,852		
23.90 Total budgetary resources available for obligation	112,258	116,167	124,235
23.95 Total new obligations	-111,142	-116,167	-124,235
24.40 Unobligated balance available, end of year	1,117		
New budget authority (gross), detail:			
Mandatory:			
60.00 Appropriation	74,594	86,087	93,586
60.05 Appropriation (indefinite)		179	
62.50 Appropriation (total mandatory)	74,594	86,266	93,586
65.00 Advance appropriation	27,801	28,734	30,589
69.00 Offsetting collections (cash)		50	60
70.00 Total new budget authority (gross)	102,395	115,050	124,235
Change in unpaid obligations:			
72.40 Unpaid obligations, start of year: Obligated balance, start of year	5,504	4,751	4,751
73.10 Total new obligations	111,142	116,167	124,235
73.20 Total outlays (gross)	-108,043	-116,167	-124,235
73.45 Adjustments in unexpired accounts	-3,852		
74.40 Unpaid obligations, end of year: Obligated balance, end of year	4,751	4,751	4,751
Outlays (gross), detail:			
86.97 Outlays from new mandatory authority	96,526	115,050	124,235
86.98 Outlays from mandatory balances	11,516	1,117	
87.00 Total outlays (gross)	108,043	116,167	124,235
Offsets:			
Against gross budget authority and outlays:			
88.00 Offsetting collections (cash) from: Federal sources		- 50	- 60
Net budget authority and outlays:			
89.00 Budget authority	102,394	115,000	124,175
90.00 Outlays	108,043	116,117	124,175

Note: Minor differences between the P&F Schedule and the SBR are due to rounding.

Source: *Budget of the United States Government, Fiscal Year 2001—Appendix.*

Note that circled items 1, 2, and 3 on the SBR relate to data in the “actual” column in the P&F Schedule. For example, “Total Budgetary Resources” of \$112,258 in the SBR, equals line 23.90 entitled “Total Budgetary Sources Available for Obligation” in the P&F Schedule. Other sections of the P&F Schedule, such as “New budget authority (gross), detail,” provide detailed information about other P&F Schedule lines. For example, lines 60.00 through 70.00 in the P&F Schedule in figure 2 provide the detail for the “New budget authority” line, which is included in the circled item 1 and also as “Budget authority” in the Budgetary Resources section of the SBR in figure 1. However, as discussed previously, differences may exist between the two documents, and the linkage may not be clear without proper reconciliation.

Appendix III: Issues Related to the Preparation and Audit of the SBR

Our work on 22 major budgetary accounts at 10 federal agencies, constituting approximately 77 percent of total federal fiscal year 1999 net outlays, showed that several agencies did not fully implement the accounting and reporting framework to prepare their SBRs. This limited the capability to determine the reliability of budget execution information in the SBRs and therefore in the President's Budget.¹

We found that

- data quality problems, which affected the financial statements, including the SBRs, precluded the auditor's determination of the reliability of the amounts presented and
- lack of disclosure of significant differences between the SBRs and the P&F Schedules resulted in the inability to reconcile amounts in these two documents and therefore to assess the reliability of budget execution data.

Our review of financial statement audits also showed that some audit workpapers lacked evidence that adequate SBR audit procedures were performed. For example we found the following.

- Workpapers for the audit of one budgetary account reviewed did not include audit programs or other key documentation, such as audit summary memos, indicating that tests were performed for significant SBR line items and describing the test results. Therefore, it was not evident whether the procedures performed were adequate.
- For two audits, auditors indicated that they relied on their work on proprietary accounts to obtain assurance over certain SBR balances. However, there was no documented link between the proprietary account amounts and those in the SBRs.

In addition, a separate review of another agency disclosed that the SBR was misstated by hundreds of millions of dollars because the agency misinterpreted applicable guidance and made errors in the ad hoc process used to generate the budgetary information. Agency auditors did not detect this misstatement because insufficient audit work was performed.²

¹*Federal Accounting and Reporting: Framework for Assessing the Reliability of Budget Execution Data Is Not Yet Fully Implemented* (GAO-01-43, October 6, 2000).

²*Financial Management: Misstatement of NASA's Statement of Budgetary Resources* (GAO-01-438, March 30, 2001).

Under FASAB's accounting framework, reliable SBR information is key in helping determine the reliability of budget execution data in the President's Budget. For this reason, agencies need to properly prepare the SBRs and reconcile budget execution data included in the SBR to data in the President's Budget to determine and report on any significant differences. Auditors also need to perform adequate procedures to render opinions on whether the SBRs are fairly stated. Failure to do so limits the assurance on related amounts included in the President's Budget. In addition, because outlays reported in the P&F Schedules are used along with receipts and other amounts in determining the amount of the annual federal budget surplus or deficit, the successful implementation of FASAB's framework provides the means to help assess the reliability of that calculation as well.³

³The lack of evidence that sufficient audit procedures were performed increases the risk that, if significant errors exist in agency financial statements, including the SBR, they will not be detected by the auditor and will lead to an inappropriate audit opinion.

Appendix IV: Audit Guidance

An effective audit of the SBR, including related note disclosures, provides users of agency financial statements with a mechanism to help assess the reliability of budgetary data presented in the “actual” column of the President’s Budget P&F Schedules.¹

Government auditing standards² require auditors of agency financial statements to (1) report on whether financial statements as a whole are fairly presented in all material respects in conformity with GAAP, (2) obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing, and extent of tests to be performed, and report internal control weaknesses, and (3) test compliance with laws and regulations that have a direct and material effect on the financial statements and report identified instances of noncompliance. These standards also require that auditors obtain sufficient competent evidential matter through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion on the financial statements, and that audit workpapers contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors’ significant conclusions and judgments.

In addition, OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requires auditors to assess the level of control risk relevant to the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements. For controls that have been placed in operation, the auditor should perform sufficient tests to support a low assessed level of control risk, and report on those internal controls that have not been properly designed or placed

¹Auditors use the concept of materiality in determining the scope of the financial audit and in deciding on the opinion to be rendered on the financial statements. Thus, it is important to note that even if the opinion is unqualified, complete assurance over all amounts presented is not provided by the audit. In addition, unqualified audit opinions do not guarantee that agencies have the financial systems needed to consistently produce reliable financial information. Adequate systems and effective internal controls are essential to reach the goal of useful, relevant, and reliable data to support decision-making on a day-to-day basis. Further, an unqualified audit opinion may be issued even if there is noncompliance with applicable laws, such as the Antideficiency Act, if the effects of the noncompliance are not material to the financial statements. Noncompliance is reported in the compliance section of the audit report.

²See the Comptroller General’s *Government Auditing Standards* (GAO/OCG-94-4, June 1994). For financial statement audits, these standards incorporate the American Institute of Certified Public Accountants’ generally accepted audit standards.

in operation and those internal controls that are found to be ineffective. For compliance with laws and regulations, OMB requires testing of laws that could have a direct and material effect on the financial statements, including laws governing the use of budget authority, and any other laws identified in appendix C³ of its bulletin on audit requirements.

Auditors also should perform tests and report whether the entity's systems comply with requirements of section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA), which states that "each agency shall implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level."

This document focuses on matters the auditor should consider during the planning, internal control, and testing phases of the SBR audit. Due to differences in agency budgets as well as in their systems, procedures, and controls, the auditor should use professional judgment in designing and executing the appropriate audit steps to achieve the objective of the SBR audit.⁴ In addition, certain audit procedures performed for the proprietary accounts may be used to satisfy the objectives of the SBR audit. Examples of testing procedures that combine budgetary and proprietary accounting are included in section IV of this appendix.

I. Planning Phase

During the planning phase, the auditor determines an effective and efficient way to obtain the evidence necessary to report on the entity's financial statements. The nature, extent, and timing of planning varies with the entity's size and complexity, the auditor's experience with the entity, and the auditor's knowledge of the entity's operation. Typical audit

³Appendix C of OMB Bulletin No. 01-02 includes, for example, provisions from the Antideficiency Act, the Prompt Payment Act, and the Federal Credit Reform Act of 1990.

⁴The objective of auditing the SBR is to determine whether the SBR as a whole is fairly presented in all material respects in conformity with GAAP. To achieve this objective, auditors need to obtain sufficient understanding of budgetary controls to plan the SBR audit and determine the nature, timing, and extent of tests to be performed, and whether budgetary resources were executed in compliance with applicable laws and regulations that have a direct and material effect on the SBR.

planning procedures are described in the GAO/PCIE *Financial Audit Manual*.⁵

Typical audit planning procedures for financial statements, including the SBR, include

- determining planning, design, and test materiality;
- identifying significant line items, accounts, and relevant assertions;
- identifying significant provisions of laws and regulations;⁶
- performing preliminary analytical procedures;
- identifying significant accounting applications⁷ and financial management systems;
- assessing risk factors;⁸ and
- determining the likelihood of effective information systems (IS) related controls.

In addition to these typical procedures, because the SBR uses budgetary accounting, in planning the audit of the SBR, the auditor generally should understand and document

- the agency's appropriations structure;
- the types of budget authority the agency receives as well as the purpose, amount, and period of availability of that authority;
- budget restrictions; and
- whether the agency may reprogram or transfer budget authority and under what circumstances.

⁵The GAO/PCIE *Financial Audit Manual* can be accessed on GAO's home page www.gao.gov, by clicking "other publications," and then "Accounting and Financial Management," or on the IGnet at www.ignet.gov/pande/audit.html.

⁶A provision should be considered significant if (1) compliance with the provision can be measured objectively, and (2) the provision has a material effect on determining financial statement amounts.

⁷Accounting applications are the procedures and records used to identify, record, process, summarize, and report a class of transactions. Applications related to the SBR include, for example, obligations, purchasing, disbursements, and outlays.

⁸In the planning phase, the auditor should identify conditions that significantly increase inherent, fraud, and control risk (based on identified control environment, risk assessment, communication, and monitoring weaknesses). The auditor can read the prior year audit report to determine if weaknesses reported have an effect on the information being tested. For example, weaknesses in the agency's reconciliation of its fund balance with Treasury can affect the preliminary assessment of the reliability of the outlays in the SBR.

To understand the financial statement reporting requirements for the SBR, the auditor should read the following:

- SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (applicable SBR sections);
- OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended, or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements* (effective beginning in fiscal year 2002);
- OMB Circular No. A-34, *Instructions on Budget Execution*; and
- OMB Circular No. A-11, *Preparation and Submission of Budget Estimates*.

To understand the agency's budget structure and other relevant information, the auditor should read the following information relating to the entity's budget authority for the period covered by the audit:

- enabling legislation;
- authorizing legislation;
- applicable appropriation and supplemental appropriation acts;
- apportionment and budget execution reports (SF 132s and SF 133s);
- Impoundment Control Act reports regarding rescissions and deferrals, if any;
- the system of fund controls approved by OMB; and
- any other information relevant to the entity's budget authority.

To evaluate budget controls and budget restrictions, and to design compliance-related audit procedures during the internal control and substantive phases, the auditor should understand the following:

- the Antideficiency Act (31 U.S.C. 1341, 1342, 1351, 1517);
- the Purpose Statute (31 U.S.C. 1301);
- the "Bona Fide Needs" (Time) Statute (31 U.S.C. 1502);
- the Impoundment Control Act (2 U.S.C. 681-688);
- title 7 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies;
- the Federal Credit Reform Act of 1990 (2 U.S.C. 661-661f.);
- GAO's Principles of Federal Appropriations Law (Second edition); and
- budgetary accounting concepts and terminology, as found in *Basic Topics Relating to Appropriations and Reimbursables* (GAO/AFMD-PPM-2.1).

The auditor also should review the lists of laws and regulations that OMB and the entity have determined might be significant. OMB Bulletin No. 01-

02, appendix C, provides a list of general laws the auditor should consider and those specific provisions the auditor must test at a minimum.

Planning is an iterative process performed throughout the audit. For example, findings from the internal control phase could affect planned substantive procedures. Also, the results of control and substantive testing can require changes in the planned audit approach. For additional planning procedures, refer to section 200 of the GAO/PCIE *Financial Audit Manual*. In particular, sections 250, 260, and 295G contain budget-related information.

Documentation

The auditor should document relevant information obtained during the planning phase in documents such as the Entity Profile, General Risk Analysis (GRA), and Account Risk Analysis (ARA), described in detail in section 290 of the GAO/PCIE *Financial Audit Manual*. With respect to the SBR, the auditor should include in these documents the following types of information.

- The **Entity Profile or equivalent** should include information about the agency's budgetary accounting system and structure. For example, the auditor should include a description of the budgetary accounting system and whether it is integrated with the proprietary accounting systems. Regarding the agency's budgetary structure, the auditor generally should document (1) the type of budgetary resources (i.e., appropriations, contract authority, etc.), (2) whether the agency has spending authority from offsetting collections, and (3) any restrictions to the use of budgetary resources.
- The **GRA or equivalent** should include relevant provisions of laws and regulations and budgetary restrictions that should be considered when testing compliance with provisions' requirements.
- The **ARA or equivalent** should identify significant SBR line items, accounts, accounting applications and the inherent, fraud, and control risk factors. The ARA serves as the link between the results of the internal control risk assessment and planned substantive testing. It should be updated throughout the audit to include a final risk assessment based on the results of control and substantive tests.

For additional information on documentation prepared during the planning phase, refer to section 290 of the GAO/PCIE *Financial Audit Manual*.

II. Internal Control Phase

During the internal control phase,⁹ the auditor (1) assesses control risk, (2) determines the nature, timing, and extent of control, compliance, and substantive testing, and (3) determines control weaknesses and, if appropriate, forms an opinion and/or reports on internal control over financial reporting and compliance. The auditor should assess control risk separately for each significant financial statement assertion in each significant cycle/accounting application. The effectiveness of budget and compliance controls is a factor in determining the nature, timing, and extent of substantive testing of the SBR.

Internal control as it relates to the SBR is a process effected by the agency's management and other personnel that is designed to provide reasonable assurance that transactions

- are properly recorded, processed, and summarized to permit the preparation of the SBR in conformity with GAAP and
- are executed in accordance with (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the SBR and (2) any other laws, regulations, and governmentwide policies identified in OMB guidance.

Budget controls may be both financial reporting and compliance controls. Budget controls that provide reasonable assurance that budgetary transactions, such as obligations and outlays, are properly recorded, processed, and summarized to permit the preparation of the SBR in conformity with GAAP are financial reporting controls. Budget controls that provide reasonable assurance that transactions are executed in accordance with laws governing the use of budget authority are compliance controls. See additional information in section 295G of the GAO/PCIE *Financial Audit Manual*.

⁹For information on standards for internal control in the federal government, refer to our *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999). These standards provide an overall framework for establishing and maintaining internal control. In addition, OMB Circular No. A-123, *Management Accountability and Control*, revised June 21, 1995, provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on management controls.

During the internal control phase, the auditor should do the following:

- Understand the agency's information systems for financial reporting, specifically, the processes for (1) establishing, recording, and monitoring appropriations, obligations, and outlays, (2) monitoring transactions in expired accounts, and (3) preparing the SBR.
- Understand the relationship of budgetary to proprietary accounts and what documentation constitutes evidence of transactions.¹⁰
- Understand how the agency reconciles information in the SBR to information reported in the President's Budget.
- Determine whether the agency has a system in place to review unliquidated obligations to determine if remaining obligations are still needed or should be deobligated.
- Understand the agency's policies and procedures for recording recoveries of prior year obligations and upward and downward adjustments.
- Understand the agency's system for ensuring compliance with laws and regulations, including, for example, how it (1) identifies and documents significant provisions of laws and regulations related to budget execution and (2) monitors changes in laws and regulations that affect the amount of resources available for obligation.
- Identify agency control activities related to budget data that effectively achieve its control objectives, including, for example, assessing whether agencies have controls in place to
 - ensure that transactions are recorded in the proper program/account,
 - monitor expired budget authority and related accounts so that only authorized transactions are recorded, and
 - monitor closed accounts and budget restrictions.
- Determine the nature, timing, and extent of control testing.
- Perform tests that do not involve sampling, such as walkthroughs and observations (nonsampling control tests), to assess the effectiveness of budget controls. (Sampling control tests, if necessary, are typically performed in the testing phase.)

¹⁰Understanding the relationship between proprietary and budgetary accounts is essential to maximize efficiency when planning substantive testing. (For additional information, refer to section IV of this appendix.) Examples of supporting documentation include appropriations acts, list of budgetary restrictions, Treasury Warrants, Apportionment and Reapportionment Schedule (Form SF 132), agency's documentation for allocating funds (allotments), agency's policies and procedures related to budgetary information, list of adjustments made to budgetary accounts, Reports on Budget Execution and Budgetary Resources (Form SF 133), contracts, purchase orders, and travel orders. Supporting documents may vary by agency.

-
- Evaluate the results of the nonsampling control tests and assess the effectiveness of budget controls on a preliminary basis.

In addition to the controls and compliance information provided above, auditors should test whether the agency's systems comply with the requirements of FFMIA. To do this, auditors should assess and report whether the agencies' financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the SGL at the transaction level. These requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP), and in OMB Circular No. A-127, *Financial Management Systems*, as revised by Transmittal Memorandum No. 2 dated June 10, 1999.

An example of systems requirements that relates to budget controls is the requirement that each agency establish a system to ensure that it does not obligate or disburse funds in excess of those appropriated and/or authorized. This is called the "funds management function." In establishing the funds management function, an agency ensures that its core financial system provides, among other things, (1) the ability to track changes to budget authority and (2) appropriate warnings and controls to ensure that budgetary limitations are not exceeded to avoid overobligating or overspending. To assist auditors in reviews of financial management systems under the requirements of FFMIA, a series of checklists have been developed to ensure that the agency's financial systems comply with system requirements.¹¹ Testing compliance with FFMIA provides auditors with information on the effectiveness of budget controls that were developed to ensure proper reporting of amounts and compliance with laws and regulations, such as the Antideficiency Act.

The following are examples of overall budget control objectives in the three areas of the SBR and examples of controls that the auditor should

¹¹One of the checklists is entitled *Core Financial Systems Requirements: Checklist for Reviewing Systems Under the Federal Financial Management Improvement Act* (GAO/AIMD-00-21.2.2, February 2000). Other system requirement checklists were prepared for inventory, travel, guaranteed loans, direct loans, and human resources and payroll.

consider for evaluation. The auditor may consider these control objectives for the evaluation of both financial reporting and compliance controls.¹²

Budget Authority: Recorded budget authority is the same as that made available in the appropriation or other legislation, including restrictions on amount, purpose, and time (period of availability for obligations). The auditor should evaluate management's controls over the recording of budget authority and related restrictions.

Obligations: Recorded obligations are valid, complete, and for the purpose intended. The auditor should evaluate management's controls over initial recording of obligations as well as over monitoring obligated balances to determine whether they remain legally valid as of the end of the fiscal year. This evaluation of controls should consider the adequacy of policies and procedures for determining (1) the initial validity and amount of obligations recorded, (2) the removal of liquidated obligations, (3) compliance with laws, such as the Antideficiency Act, (4) periodic reviews of unliquidated obligations to ensure continuing validity, and (5) the classification between undelivered orders and accounts payable at year-end.

Outlays: Recorded outlays are properly authorized, supported by evidence, and recorded against the appropriation and obligation established to pay for the work performed or the item received. The auditor should evaluate management's controls over the disbursement process to ensure that payments are for the correct amount, properly authorized, and posted to the correct account/program. Evaluations of controls related to outlays generally should be combined with cash disbursements testing.

For additional internal control procedures, refer to section 300 of the GAO/PCIE *Financial Audit Manual*. Specifically, sections 310, 320, 330, 370, 390, 395D, 395E, 395F, and 395F Sup contain budget-related information.

¹²The auditor should consider coordinating budgetary control tests with substantive audit procedures and/or tests of compliance with laws and regulations (multipurpose tests) to maximize audit efficiency. Also, budget control tests should be combined with related control and substantive tests of proprietary accounts.

Documentation

During the internal control phase, in addition to preparing a control testing audit program and updating the ARA or equivalent with the combined risk assessment, the auditor should prepare other workpapers relevant to the internal control phase, such as

- a **cycle memo**, which includes information on (1) cycle transactions, (2) significant accounting applications, (3) applicable financial management systems, (4) interfaces with other cycles, (5) significant policies and procedures, (6) SGL accounts, and (7) other relevant information;
- a **flowchart**,¹³ which includes information on transaction flows such as (1) input and report documents, (2) processing steps, (3) files used, (4) units involved, and (5) interfaces with other cycles; and
- **Specific Control Evaluation Worksheets or equivalent**, which includes information on (1) relevant assertions, (2) control objectives, and (3) the assessment of the control activities tested.

For additional information on documentation prepared for the internal control phase of the audit, refer to section 390 of the GAO/PCIE *Financial Audit Manual*.

III. Testing Phase

After the auditor has obtained an understanding of budgetary transactions and has assessed the effectiveness of controls on a preliminary basis, he or she should plan the nature, timing, and extent of procedures to be performed. During the testing phase the auditor can perform substantive, control,¹⁴ and compliance tests.

To maximize efficiency, the auditor generally should combine similar tests. For tests that involve sampling, efficiencies can be realized by performing numerous tests on a common sample (multipurpose testing).

¹³Preparation of a flowchart in addition to the cycle memo is recommended but not required. However, a flowchart is a very effective tool to help understand (1) the departments involved in the budget process, (2) sources of budgetary information, (3) the accounting system, and (4) how the SBR is compiled.

¹⁴Controls that leave documentary evidence of their existence and application may be tested by inspecting this evidence. If sufficient evidence cannot be obtained through walkthroughs in combination with other observation and inquiry tests, the auditor generally should obtain more evidence by inspecting individual items selected using sampling procedures.

The auditor should try to minimize the number of separate sampling applications performed on the same population in order to effectively achieve as many objectives as possible using the items selected for testing. For example, if a substantive test of obligations would require 135 sample items and a test of controls would require 45 sample items, the auditor should select 135 sample items but test controls for only 45. The 45 items for control testing should be selected randomly or systematically (with a random start) from the 135 sample items. For additional information on designing substantive, compliance, and control tests refer to section 400 of the GAO/PCIE *Financial Audit Manual*. In addition, section 800 of the GAO Financial Audit Manual, Volume II, (under revision to be incorporated into the GAO/PCIE manual) has summary information on compliance and applicability of certain laws, such as the Antideficiency Act and Prompt Payment Act. Information provided in section 800 should help determine the applicability of the law and also suggest audit procedures to test the provisions.

Auditors should use professional judgment in designing audit programs and determining sampling methods to obtain samples after considering the test materiality, expected misstatement, and inherent, fraud, and control risks, and the auditor's judgment of the most effective and efficient method to achieve the specific audit objectives.

The following guidance provides the auditor with a framework for designing audit procedures for budgetary accounts. This guidance follows the three sections of the SBR (budgetary resources, status of budgetary resources, and outlays) and their key line items, and is focused on the format used in OMB Bulletin No. 97-01. We have also included information related to the SBR form and content changes incorporated in OMB Bulletin No. 01-09, which will be effective beginning in fiscal year 2002. However, to the extent that agencies report detailed line items as included in the new form and content bulletin (see appendix I), auditors will need to develop additional audit procedures similar to the ones discussed in this guide.

Sections in this appendix include a general description of the line items, risks, and audit objectives and guidance and are focused on the existence and completeness financial statement assertions. For budgetary accounts,

the valuation assertion is typically performed concurrently with testing for existence and completeness.¹⁵

Budgetary Resources

This section of the SBR shows total budgetary resources available to the reporting entity. Budgetary resources include new budget authority, unobligated balances at the beginning of the period, spending authority from offsetting collections, and adjustments to these resources, which include recoveries of prior year obligations and/or amounts not available for obligation, such as obligation limitations.¹⁶

Figures 3 and 4 show the Budgetary Resources section of the SBR according to OMB guidance effective for fiscal year 2001 and revisions made in the new guidance, which are effective beginning with fiscal year 2002.

Figure 3: Budgetary Resources Section of the SBR (Effective for Fiscal Year 2001)

Budgetary Resources	(Dollars in millions)
Budget authority	\$XXX
Unobligated balance – beginning of period	XXX
Net transfers prior year balance, actual	XXX
Spending authority from offsetting collections	XXX
Adjustments	XXX
Total budgetary resources	\$X,XXX

Source: OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*.

¹⁵The rights and obligations assertion, specifically the obligation side, which deals with the validity of the obligation, is also covered when testing the existence and completeness assertions.

¹⁶Obligation limitations are restrictions on the amount of budgetary resources that can be obligated for a specific purpose. While limitations are most often established through appropriations acts, they can also be established through other legislation. Limitations may be placed on the availability of funds for program levels, administrative expenses, direct loan obligations, guaranteed loan commitments, or other purposes. Obligation limitations, along with other resources not available for obligation, are included as a reduction on the “Adjustments” line item (in OMB Bulletin No. 97-01) of this section.

Figure 4: Budgetary Resources Section of the SBR (Effective for Fiscal Year 2002)

Budgetary Resources	<u>Budgetary</u>	Non-budgetary credit program <u>financing accounts</u>
1. Budget authority:		
1a. Appropriations received	\$XXX	\$XXX
1b. Borrowing authority	XXX	XXX
1c. Contract authority	XXX	XXX
1d. Net transfers (+/-)	XXX	XXX
1e. Other	XXX	XXX
2. Unobligated balance:		
2a. Beginning of period	XXX	XXX
2b. Net transfers, actual (+/-)	XXX	XXX
2c. Anticipated transfers balances	XXX	XXX
3. Spending authority from offsetting collections:		
3a. Earned		
1. Collected	XXX	XXX
2. Receivable from federal sources	XXX	XXX
3b. Change in unfilled customer orders		
1. Advance received	XXX	XXX
2. Without advance from federal sources	XXX	XXX
3c. Anticipated for rest of year, without advances	XXX	XXX
3d. Transfers from trust funds	XXX	XXX
3e. Subtotal	XXX	XXX
4. Recoveries of prior year obligations	XXX	XXX
5. Temporarily not available pursuant to Public Law	XXX	XXX
6. Permanently not available	XXX	XXX
7. Total budgetary resources	<u>\$X,XXX</u>	<u>\$X,XXX</u>

Source: OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*.

Note:(1) Section 30 of OMB Circular No. A-34 (2000) contains detailed explanations of the SBR and SF 133 line item components.

Budget Authority

This line item consists of the amount of new budget authority made available during the year for obligation, such as appropriations, contract authority, and borrowing authority.

Risks: New budget authority may be misstated or recorded in the wrong accounts, resulting in obligations in excess of resources made available or underobligation of resources that actually were available.

Audit objectives and guidance:

Existence: Recorded new budget authority was made available for obligation and was recorded in the proper accounts.

- Compare recorded new budget authority to supporting documentation, such as appropriations acts and Treasury Warrants to determine whether budget authority recorded in the appropriations' accounts was valid.

Completeness: All new budget authority that was made available for obligation was recorded in the proper accounts.

- Determine if all new budget authority from the appropriations acts or other budgetary documentation was reported in the financial statement and was posted to the proper accounts.

Unobligated Balance,
Beginning of Period

This line item is comprised of amounts available for obligation during the current fiscal year brought forward from prior fiscal years. Prior year unobligated balances may be available to enter into new obligations during the current year and for upward adjustments of obligations that were properly incurred against the account during the unexpired period.¹⁷

Risks: Unobligated balances brought forward are not available for obligation because balances have been rescinded or are otherwise restricted. Not all balances available are brought forward.

Audit objectives and guidance:

Existence: Recorded unobligated balances from prior periods remain available for obligation.

- Trace the balance to prior year ending unobligated balances to determine if amounts agree.
- Determine that prior year ending unobligated balances have not been canceled or rescinded. For example, determine the "aging" of the

¹⁷According to OMB guidance, the SBR balances include budgetary resources for accounts during the 5 years that they are in an expired status. Unobligated balances of expired budget authority remain available for 5 years after the account expires to make legitimate adjustments, that is, to record previously unrecorded obligations and to make upward adjustments in previously recorded obligations. At the end of the fifth year, the expired account is closed.

unobligated balances to determine whether canceled amounts were mistakenly carried forward.

Completeness: All unobligated available balances from prior periods are recorded.

- Generally, when prior year audited balances agree with the current year beginning balances (tested under existence), audit risk for completeness is minimal.

Spending Authority From Offsetting Collections

This line item is comprised of budget authority that is financed by collections authorized by law to be credited to an appropriation or fund account. Offsetting collections may consist of advances, reimbursements, and other income.

Risks: Collections are misstated or recorded in the wrong account. Collections are not authorized by law to be credited to the appropriation or fund account.

Audit objectives and guidance:

Existence: Recorded offsetting collections are available for obligation during the year and were recorded in the proper accounts.

- Determine whether recorded offsetting collections are available for obligation by reference to authorizing legislation.
- Trace spending authority from offsetting collections to supporting documentation such as evidence of collections from other federal agencies and others for goods and services provided or prepaid orders to determine whether the transaction/event occurred.
- Determine whether offsetting collections were recorded in the proper accounts.

Completeness: All available and authorized spending authority is recorded.

- Confirm revenue/collections with other federal entities.
- Reconcile spending authority from offsetting collections with reported revenue from third parties.
- Determine whether offsetting collections were recorded in the proper accounts.

Recoveries of Prior Year Obligations

This line item¹⁸ is comprised of cancellations or downward adjustments of obligations incurred in prior fiscal years that were not subsequently disbursed (outlayed) and remain available in the current year. For no-year and unexpired multi-year accounts, apportioned recoveries of prior year obligations are available for new obligations. For expired accounts, recoveries are available for unrecorded legitimate obligations and upward adjustments of previously recorded obligations incurred during the unexpired period.

Risks: Recorded recoveries of prior year obligations are incorrect or no longer available.

Audit objectives and guidance:

Existence: Recorded recoveries represent cancellations or downward adjustments of prior obligations, remain available, and are recorded in the proper account.

- Compare recorded amounts to supporting documentation, such as closed or canceled contracts or purchase orders, to determine whether they represent cancellations or downward adjustments of prior obligations.
- Determine if recoveries remain available for obligation.
- Determine whether recoveries of prior obligations are recorded in the proper accounts.

Completeness: All recoveries of prior years that are available for obligation were included in the SBR.

- Select canceled contracts, purchase orders, travel orders, etc.; determine if the amount obligated was in excess of amount paid; and determine if the excess amount was available for obligation and, if so, if it was reported as available.

¹⁸This line item is included in the "Adjustments" line item in OMB Bulletin No. 97-01.

Temporarily or Permanently
Not Available for Obligation

This line item¹⁹ is comprised of budgetary resources that are temporarily or permanently not available for obligation²⁰ pursuant to a specific provision of law. For example, amounts temporarily not available may include a limitation on obligations, and amounts permanently not available may include cancellations of expired and no-year authority and amounts rescinded by law.

Risk: Adjustments that reduce budgetary resources are not properly reported.

Audit objectives and guidance:

Existence: Reported amounts not available represent valid restrictions on the availability of budget authority or cancellations.

- Compare amounts recorded as not available to supporting documentation, such as authorization acts or other supporting documentation, to determine if resources are not available or have been canceled.

Completeness: All amounts that are canceled, restricted, or limited are included as reductions of resources in the SBR.

- Review appropriations acts or other laws to determine if restrictions on the use of resources exist but were not included in the financial statements.
- Review appropriations acts or other laws to determine if amounts have been canceled and were not included in the SBR.
- Review aging of expired accounts to determine if resources such as unobligated balances were canceled after the 5-year period.

¹⁹This line item is included in the “Adjustments” line item in OMB Bulletin No. 97-01.

²⁰When a provision of law, such as benefit formula or limitation on obligations, precludes amounts in special or trust funds from being obligated, amounts not available are included as negative amounts in this line item.

Status of Budgetary Resources

This section displays the disposition of the budgetary resources that were made available for obligation. It consists of obligations incurred during the year, unobligated balances at the end of the year that remain available, and unobligated balances at the end of the year that are unavailable. Totals for this section and for the Budgetary Resources sections should agree.

Figures 5 and 6 show the Status of Budgetary Resources section of the SBR according to OMB guidance effective for fiscal year 2001 and revisions made in the new guidance, which are effective beginning with fiscal year 2002.

Figure 5: Status of Budgetary Resources Section of the SBR (Effective for Fiscal Year 2001)

Status of Budgetary Resources	(Dollars in <u>millions</u>)
Obligations incurred	\$XXX
Unobligated balances - available	XXX
Unobligated balances - unavailable	XXX
Total status of budgetary resources	\$X,XXX

Source: OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*.

Figure 6: Status of Budgetary Resources Section of the SBR (Effective for Fiscal Year 2002)

	<u>Budgetary</u>	<u>Non-budgetary credit program financing accounts</u>
Status of Budgetary Resources		
8. Obligations incurred:		
8a. Direct	\$XXX	\$XXX
8b. Reimbursable	XXX	XXX
8c. Subtotal	XXX	XXX
9. Unobligated balance:		
9a. Apportioned	XXX	XXX
9b. Exempt from apportionment	XXX	XXX
9c. Other available	XXX	XXX
10. Unobligated balance not available	XXX	XXX
11. Total status of budgetary resources	<u>\$X,XXX</u>	<u>\$X,XXX</u>

Source: OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*.

Obligations Incurred

This line item includes the amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require future payments. Obligations incurred also reflect obligations for outlays for which obligations were not previously recorded and reflect adjustments for differences between obligations previously recorded and the amount of outlays required to liquidate those obligations.

Risks: Obligations incurred may be invalid, incorrectly recorded, or not recorded.

Audit objectives and guidance:

Existence: Recorded obligations represent valid orders, contracts, or other events that will require future payment.

- Trace recorded obligations to supporting documentation such as purchase orders, grants, binding contracts, and travel authorizations to determine if
 - obligations are properly recorded and supported by obligating documents,
 - obligations are classified in the proper accounts,
 - obligations were incurred within the period that the appropriation was available for new obligations, and
 - the purposes of the obligations are those for which the appropriations are available.
- If the transaction is a modification or an adjustment to an obligation, determine if
 - the amount was properly authorized in accordance with agency and OMB policies,
 - the adjustment did not cause the entity to exceed the original appropriated amount,
 - it was recorded during the period when the account is available for adjustments (5 years), and
 - the adjustment amount equals the difference between the amount invoiced and the amount previously obligated.

Completeness: All valid and new obligations were recorded in the proper accounts.

- Examine new contracts, purchase orders, travel vouchers, and documentation of other events that require obligations to be recorded and determine whether obligations were recorded for these items.
- Determine whether amounts were recorded in the proper accounts and in the proper fiscal years.

Unobligated Balances

This line item includes the cumulative portion of obligation authority that has not yet been obligated. The unobligated balance at each year-end is the difference between total budgetary resources and obligations incurred.

Risks: Unobligated balances may be misstated and expired balances or errors may be carried forward into next year's balances.²¹

Audit objectives and guidance:

Since total unobligated balances is the difference between total budgetary resources available less obligations incurred, perform an overall reasonableness test by performing the calculation. In addition:

- Compare amounts recorded as unobligated balances available and not available to amounts recorded in the agency's final SF 133 to determine whether differences exist.
- Determine whether unobligated balances are expired, canceled, or rescinded and if balances were correctly reported in the SBR as available or unavailable.
- Review the appropriations act or other laws to determine whether all unavailable balances pursuant to the law were included in the financial statements.

Outlays

This section in the SBR (new title in fiscal year 2002 is Relationship of Obligations to Outlays) shows the relationship between obligations incurred and outlays. It reconciles outlays with obligations incurred and the change in obligated balances during the year. Obligations are usually liquidated by means of cash payments (outlays), such as currency, checks, or electronic fund transfers. Several line items in this section, such as obligations incurred, spending authority from offsetting collections, and adjustments, are also reported in SBR sections previously discussed.

Figures 7 and 8 show the Outlays section of the SBR according to OMB guidance effective for fiscal year 2001 and revisions made in the new guidance, which are effective beginning in fiscal year 2002.

²¹The risk that errors may be carried forward into next year's balances may also be a risk for other accounts such as Obligations Incurred and Obligated Balance, Net End of Period. However, it is specifically included here because it is a prevalent risk.

Figure 7: Outlays Section of the SBR (Effective for Fiscal Year 2001)

	(Dollars in millions)
Outlays	
Obligations incurred	\$XXX
Less: Spending authority from offsetting collections and adjustments	(XXX)
Subtotal	XXX
Obligated balance, net beginning of period	XXX
Obligated balance, transferred net	XXX
Less: Obligated balance, net end of period	(XXX)
Total outlays	\$X,XXX

Source: OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*.**Figure 8: Revised Outlays Section of the SBR (Effective for Fiscal Year 2002)**

	<u>Budgetary</u>	<u>Non-budgetary credit program financing accounts</u>
Relationship of Obligations to Outlays		
12. Obligated balance, net beginning of period	\$ XXX	\$ XXX
13. Obligated balance, transferred net	XXX	XXX
14. Obligated balance, net end of period		
14a. Accounts receivable	XXX	XXX
14b. Unfilled customer orders from Federal sources	XXX	XXX
14c. Undelivered orders	XXX	XXX
14d. Accounts payable	XXX	XXX
15. Outlays		
15a. Disbursements	XXX	XXX
15b. Collections	XXX	XXX
15c. Subtotal	XXX	XXX
16. Less: Offsetting receipts	XXX	XXX
17. Net outlays	<u>\$X,XXX</u>	<u>\$X,XXX</u>

Source: OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*.

Obligated Balances

This line item is comprised of the amount of obligations already incurred for which payment has not yet been made. The SBR shows net beginning, transferred, and ending obligated balances for the year. For a fixed appropriation account, this balance can be carried forward and retains its fiscal year identity for 5 fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. Obligated balances of an appropriation account available for an indefinite period may be closed if (1) they are specifically rescinded by law, (2) the purpose for which the appropriation was made has been carried out, and (3) no disbursements have been made for 2 consecutive years.

Risks: Not all obligations are eliminated when an outlay or other liquidating event occurs or not all obligations have been included. Unliquidated obligations that are no longer valid tie up resources that if deobligated, may be available for new obligations.

Audit objectives and guidance:

Existence: Obligated balances represent amounts for orders placed, contracts awarded, and similar obligating transactions for which goods and services have not been paid.

- For undelivered orders, trace a sample of obligated balances to supporting documentation, such as purchase orders, contracts, or other supporting documents, and determine whether goods and services remained undelivered at the end of the fiscal year. If part of an order was received as of year-end but not paid for, determine whether the portion delivered was classified as Expended Authority - Unpaid.
- For Expended Authority - Unpaid, trace the amount to supporting documentation, such as invoices or other evidence of receipt of goods and services.
- Determine whether the amounts were recorded in the proper accounts and in the correct fiscal year.
- Determine whether the obligation is still valid or needed. For example, review inactive obligations, inquire about continuing need, and examine support as appropriate to determine whether the obligations are still needed.

Completeness: All undelivered orders, such as contracts, purchase or travel orders, and other obligations, are recorded in the proper accounts and for the correct fiscal year. In addition, all received but unpaid goods and services are included.

- Select disbursements after year-end to determine whether an obligation should have been recorded for those items at year-end (combine this testing with cutoff testing).
- Select outstanding undelivered orders, such as purchase orders and contracts at year-end, and determine whether an obligation was recorded for those items.
- Determine whether the amounts were recorded in the proper account and in the correct fiscal year.

Outlays

This line item consists of payments made to liquidate federal obligations.²²

Risks: Payments are made for invalid or unauthorized transactions. Outlays are not recorded in the proper accounts or the correct fiscal year.

Audit objectives and guidance:

Existence: Recorded outlays are supported by disbursement evidence.

- Determine whether outlays are evidenced by supporting documentation. For example, trace recorded payment to invoices or other forms of billing.
- Determine if outlays or payments were properly authorized. For example, trace disbursements to payment voucher and determine if they were properly authorized.
- Determine if outlays are recorded in the appropriate accounts and fiscal years.
- Determine whether the outlays were recorded against valid obligations.
- Compare this line item to net outlays reported to Treasury on the SF 224, Statement of Transactions, and determine if differences exist and the reasons for the differences.

Completeness: All payments made are recorded in the proper accounts and for the correct year.

- Perform cutoff tests. Select disbursements after the end of the fiscal year and determine whether the payment belongs in the fiscal year under audit.

Offsetting Receipts

This line item (effective beginning with fiscal year 2002 reporting) is comprised of collections such as fees or payments that are credited to the general fund, special fund, or trust fund receipt accounts. Offsetting receipts can be distributed (receipts offset outlays at the agency level) or undistributed (receipts offset outlays at the governmentwide level). For this line item, agencies should include all distributed offsetting receipts for the agency. OMB guidance states that the amount of distributed offsetting

²² Outlays also occur when interest on the public issues of Treasury debt accrues and when the government issues bonds, notes, debentures, monetary credits, or other cash-equivalent instruments in order to liquidate obligations. Also, the credit subsidy cost is recorded as an outlay when a direct or guaranteed loan is disbursed.

receipts reported in this line should be the aggregate of cash collected in the receipt accounts and reported to Treasury²³ each month.

Risks: Offsetting receipts are misstated or incorrectly reported.

Audit objectives and guidance:

Existence: Recorded receipts are valid and were recorded in the proper accounts.

- Trace amounts to supporting documentation, such as evidence of collections from other federal agencies, to determine whether the transfer/event occurred.
- Determine whether offsetting receipts were recorded in the appropriate accounts and fiscal year.

(Testing of offsetting receipts can be combined with revenue/collections testing to maximize efficiency. While testing revenue/collections, auditors should test whether amounts recorded in the proprietary accounts are also being recorded in the applicable budgetary accounts.)

Completeness: All current year offsetting receipts are recorded.

- Confirm revenue/collections with other federal entities.
- Reconcile collections with reported revenue from third parties.
- Determine whether offsetting receipts were recorded in the proper accounts and fiscal year.

**Non-Budgetary Credit
Program Financing
Accounts**

Credit program financing accounts (effective beginning with fiscal year 2002 reporting) are non-budgetary accounts (transactions are excluded from budget totals) that record cash flows resulting from post-1991 direct loans or loan guarantees. Financing accounts reflect disbursements of loans, collections of repayments and fees, claim payments, borrowings from Treasury, interest earned or paid, and subsidy cost payment from the credit program account. There is at least one financing account associated with each credit program account. Separate financing accounts are

²³Agencies report these collections to Treasury in the SF 224, *Statement of Transactions*; SF 1219, *Statement of Accountability*; and SF 1220, *Statement of Transactions*.

required for direct loan cash flows and for loan guarantee cash flows if the program account provides subsidy costs for both forms of credit.

To test financing accounts, auditors need to understand the relationship between these accounts and related accounts reported in the financial statements. Because financing accounts record the cash flows of loan guarantees and direct loans, auditors can combine testing of financing accounts with testing of cash receipts and disbursements. Auditors should also test transaction coding or Treasury account symbols to determine whether amounts are properly classified and reported.

For all substantive tests performed to audit the significant balances in the SBR, the auditor should note any differences between recorded amounts and supporting evidence and summarize and conclude on the results of testing, including an explanation for any differences identified. If misstatements occurred, the auditor should assess the effect of the misstatements on the budget amounts (project the misstatements to the population) and consider whether their evaluation of budget controls is affected. In addition, if beginning balances, such as unobligated balances and/or obligations, have not been audited, additional procedures need to be performed to obtain audit assurance about these amounts.

Documentation

Proper documentation of the procedures performed during the testing phase of the audit is essential to provide evidence that audit coverage is appropriate and that adequate tests were performed. Documentation in this phase should include:

- An **audit program** in which the auditor explains the objectives of the audit procedures and includes a clear description of the testing procedures applied. (Note: Cross-referencing the steps in the audit program describing the audit procedures performed to the workpapers where the tests were actually documented is one way to help determine that all planned tests were completed.)
- For tests involving sampling, a **sampling plan**, which includes information about the sampling method used and key factors regarding the selection method, sample size, confidence level, etc. (For an example of a sampling plan, refer to section 495E of the GAO/PCIE *Financial Audit Manual*.)
- The **results of tests**, including evaluations of sample results (projection of results to the population), and **conclusions**.

For substantive analytical procedures performed, the auditor should document the following:

- the auditor's expectations for the balance;
- the model used to develop expectations and the basis for the model;
- the data used, data sources, and an assessment of the reliability of the data used;
- the amount of the limit and the criteria for establishing the limit;
- explanation for fluctuations or other differences from expectations that exceed the limit or are otherwise considered significant, sources of these explanations, and corroborating evidence obtained; and
- conclusions regarding findings, including proper treatment of any misstatements detected and assessment of any other effects of these misstatements.

For additional information on documentation prepared during the testing phase of the audit, refer to section 490 of the GAO/PCIE *Financial Audit Manual*.

IV. Integration of Budgetary and Proprietary Accounting Testing

To maximize effectiveness and efficiency, the auditor generally should combine tests of budgetary and proprietary accounts when interrelationships exist. For example,

- procedures to test outlays for the SBR may be combined with cash disbursement tests used to test controls and/or substantive balances,²⁴
- procedures to test obligations for the SBR may be combined with accounts payable²⁵ tests that also require the examination of purchase orders and similar documents, and

²⁴When using tests of proprietary accounts to obtain assurance on budgetary accounts, the auditor must understand the relationships between the accounts. For example, not every disbursement is an outlay (because not every disbursement liquidates an obligation). Three major disbursement examples that are not recorded as outlays are (1) repayment of debt principal, (2) disbursements to the public by federal credit programs for direct loan obligations and loan guarantee commitments made in or after fiscal year 1992, and (3) refunds of receipts that result from overpayments. Also, not all recorded outlays are cash disbursements. For example, the accrual of interest on Treasury debt is an outlay, but not a cash disbursement. Understanding these differences allows the auditor to adjust testing and address each situation to obtain proper audit coverage.

²⁵For example, at year-end, auditors may test accounts payable accruals in conjunction with obligations (undelivered orders testing) to determine whether goods and services received but not billed are accounted for in accounts payable and reduced from obligations. This will help prevent understatement of accounts payable and overstatements of unliquidated obligations.

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- procedures to test spending authority from offsetting collections or offsetting receipts may be combined with revenue testing.

However, when the auditor relies on his or her work on proprietary account audit procedures to gain assurance about SBR balances, the auditor should document the relationship between the proprietary and the budgetary accounts and how such reliance is provided. For example, if cash disbursement tests are being used to conclude on the reliability of the outlays line item of the SBR, the auditor should determine if the accounting and budgetary systems are integrated and if disbursements were recorded in both the proprietary and budgetary accounts. The auditor should document this relationship and explain how the cash disbursement test results provide audit assurance about the outlays line item.

V. Presentation and Disclosure

The presentation of financial statements in conformity with GAAP includes adequate disclosure of material matters. These matters relate to the form, arrangement, and content of the financial statements and their note disclosures, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.²⁶

For the SBR, the auditor should assess the adequacy of the presentation and disclosure of budgetary information in the SBR to determine whether the

- SBR presentation and disclosures are in accordance with SFFAS No. 7 and OMB guidelines on form and content of agency financial statements;
- disclosure amounts agree with information presented in the financial statements; and
- disclosure amounts are fairly stated in conformity with GAAP.

²⁶If management omits from the financial statements, including the accompanying notes, material information that is required by GAAP, the auditor should consider the need to express a qualified or an adverse opinion and should provide the information in his or her report, if practicable, unless its omission from the auditor's report is recognized as appropriate by a specific Statement on Auditing Standards.

According to OMB Bulletin No. 97-01, agencies should disclose the following:²⁷

- the net amount of budgetary resources obligated for undelivered orders at the end of the period;
- available borrowing and/or contract authority at the end of the period;
- repayment requirements, financing sources for repayment, and other terms of borrowing authority used;
- adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof;
- the existence, purpose, and availability of permanent indefinite appropriations;
- information about legal arrangements affecting the use of unobligated balances of budget authority;
- the amount of any contributed capital received during the reporting period; and
- explanations of differences between the information required by SFFAS No. 7 and the amounts described as “actual” in the President’s Budget.

For fiscal year 2002 and thereafter, OMB Bulletin No. 01-09 requires agencies to disclose the following:

- apportionment categories of obligations incurred;
- available borrowing and/or contract authority at the end of the period;
- repayment requirements, financing sources for repayment, and other terms of borrowing authority used;
- adjustments during the reporting period to budgetary resources available at the beginning of the year and an explanation thereof;
- existence, purpose, and availability of permanent indefinite appropriations; and
- information about legal arrangements affecting the use of unobligated balances of budget authority.

(Note: For additional information and a complete list of SBR-related note disclosures, refer to the above OMB guidance.)

²⁷OMB guidance on form and content of federal financial statements includes a complete list of required disclosures for the SBR.

In addition, agencies should disclose explanations of differences between comparable amounts in the SBR, SF 133s and the “actual” amounts reported in the President’s Budget.²⁸

As mentioned earlier, this disclosure is important because it (1) provides a tool to help readers assess the reliability of amounts reported in the President’s Budget, and (2) helps readers understand differences that may exist between amounts in the SBR and the President’s Budget due to timing or reporting requirements. Reporting differences may exist because the OMB circular used to report budget execution information in the SF 133s and the SBR differs from the guidance used to report amounts in the President’s Budget. For example, expired budget authority available for upward adjustments of obligations, which is excluded from the P&F Schedule “actual” column per OMB Circular No. A-11, is included in the SF 133s and the SBR per guidance in OMB Circular No. A-34.

In addition, timing differences may exist because agencies may issue their audited financial statements after the budget is released and adjustments included in the SBR may not be reflected in the President’s Budget. However, if the President’s Budget is not available when the agency issues its audited financial statements, the agencies may disclose in financial statement notes the fact (1) that the President’s Budget is not yet available for comparison to the SBR, and (2) whether amounts reported in the SBR differ from the data submitted or planned to be submitted to OMB for preparing the President’s Budget.

OMB has not provided guidance describing how differences between the SBR, SF 133s and the “actuals” in the President’s Budget should be disclosed. However, agencies can aggregate balances obtained from the SF 133s and from the President’s Budget submissions to obtain summarized balances that could then be compared to the SBR. If agencies are unable to summarize this data, OMB may be able to provide assistance. However, because the source of information for the SBR financial statement is the general ledger, and the source of information for the SF 133s and the actuals in the President’s Budget is information submitted to OMB and Treasury via FACTS II, the auditor needs to determine whether the agency performed this comparison to determine if differences existed and if the

²⁸Section 30.15 of OMB Circular No. A-34 (2000), explains differences that may occur between the SBR and other budgetary reports.

agency has controls in place to ensure the accuracy of budget execution information included in the SBR and amounts submitted via FACTS II.

VI. Overall Analytical Procedures

As the audit nears completion, the auditor should perform overall analytical procedures on the financial statements, including the SBR. The purposes of overall analytical procedures are to (1) determine if an adequate understanding of all fluctuations and relationships in the financial statements, including the SBR, has been obtained from other audit procedures, (2) determine if other audit evidence is consistent with explanations for fluctuations documented during the overall analytical process, and (3) assist the auditor in forming an opinion on the SBR consistent with the conclusions reached during the substantive testing. Examples of analytical procedures that may be performed on the SBR include

- scanning the SBR for unusual items or fluctuations when compared to expectations or the prior year SBR,
- comparing the totals in the Total Budget Resources section to the Total Status of Budget Resources to determine if the amounts are equal, and
- comparing budgetary balances in the SBR to amounts included in the Statement of Financing to determine if amounts for similar line items are being consistently reported in both financial statements.

For additional information on overall analytical procedures, refer to section 520 of the GAO/PCIE *Financial Audit Manual*.

VII. Required Supplementary Information

Budget execution data is monitored at the individual account level. For this reason, OMB form and content guidance requires that budgetary information aggregated for the SBR be disaggregated for each of the reporting entity's major budget accounts and presented as required supplementary information (RSI). For small budget accounts, information may be aggregated. The major budget accounts and the aggregate of small budget accounts should, in total, agree with amounts reported on the face of the SBR. OMB audit guidance requires that auditors perform the procedures described in AU Section 558, Required Supplementary

Information, for this information.²⁹ According to AU 558, the auditor should do the following:

- Inquire of management about the methods of preparing the information, including (1) whether it is measured and presented within prescribed guidelines, (2) whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes, and (3) any significant assumptions or interpretations underlying the measurement or presentation.
- Compare the information for consistency with (1) audited financial statements, (2) management's responses to the foregoing inquiries, and (3) other knowledge obtained during the examination of financial statements.
- Consider whether representations on required supplementary information should be included in specific written representations obtained from management.
- Apply additional procedures, if any, that other guides or interpretations may require for specific types of required supplementary information.
- Make additional inquiries if the application of the foregoing procedures causes the auditor to believe that the information may not be presented within the applicable guidelines.

For additional information on the auditor's responsibilities regarding RSI, refer to AU 588.

²⁹ AU refers to a section in the Codification of Statements on Auditing Standards, published by the American Institute of Certified Public Accountants.